Comment Two	**Offering Toll Limitation Services--Section 54.401(a)(3) Noncompliance**
Condition	According to an AT&T official, when subscribers are enrolling in the Lifeline program, service representatives do not bring up and offer toll limitation service. The service representatives sign subscribers up for toll limitation service only if the subscribers ask. In addition, Nevada Bell's advertising provided for this audit did not mention toll limitation service.
Criteria	Section 54.401(a)(3) of 47 C.F.R of the Federal Communications Commission's Rules and Regulations and Related Orders requires that carriers offer toll limitation to all qualifying low-income consumers at the time they subscribe to Lifeline service. If the consumer elects to receive toll limitation, that service shall become part of that consumer's Lifeline service. AT&T management asserted, by letter dated March 3, 2007 that it allows eligible consumers to voluntarily subscribe to toll blocking or toll restriction at no cost.
Cause	Nevada Bell does not have a policy or procedures in place instructing service representatives to inform Lifeline applicants about the availability of toll limitation service and offer this service at the time the applicants subscribe to Lifeline.
Effect	Qualifying low-income consumers may not know that toll limitation service is available at the time they subscribe to Lifeline. Some consumers who do not receive toll limitation service may have elected to do so if they had been informed of and offered this service.
Recommendation	We recommend that Nevada Bell develop a policy and procedures instructing service representatives to inform Lifeline applicants about the availability of toll limitation service and offer this service at the time applicants subscribe to Lifeline.
Beneficiary Response	Nevada Bell service representatives understand that Lifeline customers may receive toll restriction. Nevada Bell is reviewing all disclosures and methods documents to ensure information about free toll restriction is adequately covered. Nevada Bell will review disclosure requirements with all service representatives and ensure that service representatives inform customers inquiring about Lifeline that free toll restriction is available to them. A check-off box requesting free toll restriction will be added to Lifeline applications. Nevada Bell service representatives will inform customers that the customer may check off the box requesting free toll restriction on the application they will receive or may call Nevada Bell after they have been enrolled in Lifeline and request free toll restriction.

Comment Three	**Form 497 Lifeline Support—Section 54.403(a) Noncompliance**
Condition	According to AT&T officials, in determining the amount of Lifeline support claimed on the Federal Communications Commission (FCC) Form 497 each month, a count of the number of subscribers in Nevada Bell's Lifeline Program on a particular day at the end of the month was obtained from the billing system for reporting on the Form 497. The number of subscribers was multiplied by the different Lifeline Tier rates to determine the amount of Lifeline support claimed. No adjustment was made on Line 9 of Form 497 for new subscribers who joined the Lifeline Program upon approval during the month and subscribers who left the Lifeline Program during the month; although these subscribers were given partial (i.e., pro rata) discounts on their telephone bills for that month.
Criteria	According to Section 54.403(a) (2), (3), and (4) of 47 C.F.R of the FCC Rules and Regulations, Tier Two, Tier Three, and Tier Four federal Lifeline support amount will be made available to the eligible telecommunications carrier if that carrier certifies to the Universal Service Administrative Company Administrator that it will pass through the full amount of Tier Two, Tier Three, and Tier Four support to its qualifying low-income consumers. According to the instructions for completing Form 497, Line 9 on the form is for claiming the partial or pro rata amount for all partial or pro-rated subscribers. According to the instructions, this amount may be positive or negative depending on whether there are more new subscribers being added part way through a month or more subscribers disconnecting during the reported month. Page 2 of Form 497 requires the signature of an officer or employee of the company certifying that the company will pass through the full amount of all Tier Two, Tier Three, and Tier Four federal Lifeline support for which the company seeks reimbursement, as well as applicable intrastate Lifeline support, to all qualifying low-income subscribers by an equivalent reduction in the subscriber's monthly bill for local telephone service.
Cause	In determining the amount of Lifeline support claimed on the Form 497 each month, Nevada Bell did not take into account the partial (i.e., pro rata) Lifeline discounts given to subscribers who entered or left the Lifeline program some time during the month. According to AT&T officials, the approach used to determine the amount of Lifeline support claimed on the Form 497 "comes out in the wash" over time because some Lifeline subscribers come and go each month.
Effect	The amount of Lifeline support claimed on the Form 497 for each month may not equal the actual Lifeline discounts passed on to subscribers for that same month, depending on (1) whether there were more new subscribers added to the Lifeline Program part way through the month or more subscribers who left the Program during the month and (2) the days of the month that subscribers were added to and left the program, which determines their pro rata discounts.

Recommendation We recommend that Nevada Bell take into account the partial (i.e., pro rata) Lifeline discounts given to subscribers who entered and left the Lifeline program when determining the amount of Lifeline support claimed on the FCC Form 497 each month.

Beneficiary Response The Company disagrees with the auditor's premise that the Commission's existing rules and the current FCC Form 497 and instructions require an ETC seeking reimbursement for Lifeline discounts to report separately lifeline subscribers that were added to and/or dropped from the Lifeline program during any given month, rather than simply reporting the total number of current Lifeline subscribers as of a particular date at the end of the month. The Company notes in this regard that, in 2004, the Commission proposed to amend Form 497 to adopt such a requirement, but ultimately did not do so. Specifically, in September 2004, the Commission issued a public notice announcing that, beginning October 15, 2004, ETCs seeking reimbursement for Lifeline support would be required to use the revised form, which required ETCs separately to report the number of subscribers receiving such support for the whole month and the number of subscribers receiving such support for only a part of the month (as well as the total service days for such subscribers). *See Wireline Competition Bureau Announces Effective Date of Revised Form 497 Used to File Low Income Claims with USAC*, WC Docket No. 03-109, Public Notice, DA 04-3016 (rel. Sept. 21, 2004). Following this announcement, representatives of the Company and other ETCs met with Commission Staff to urge the Commission not to adopt the new form and require ETCs to break out and report separately the number of low-income subscribers receiving Lifeline support for only part of a month because those carriers did not have systems in place to separately track such subscribers and calculate pro-rated support. In response, the Commission delayed, and later suspended indefinitely, adoption of the new form. *See Wireline Competition Bureau Announces Delayed Effective Date for Revised Form 497 Used for Low-Income Universal Service Support*, WC Docket No. 03-109, Public Notice, DA 04-3188 (rel. Oct. 4, 2004) (delaying the effective date of the new form until April 15, 2005); *Wireline Competition Bureau Announces Delayed Effective Date for Revised Form 497 Used for Low-Income Universal Service Support Until Further Notice*, WC Docket No. 03-109, Public Notice, DA 05-604 (Mar. 4, 2005) (delaying the effective date until further notice). Plainly, if the Commission had intended to require, rather than permit, ETCs to seek pro-rated support for Lifeline subscribers who take service for only a part of a month, it would have adopted the new form – the fact that it did not do so establishes that there currently is no requirement that carriers separately report and seek pro-rated support for such customers.

The language of the instructions to the current form is not to the contrary. In particular, the instructions for Line 9, which the auditors cite as support for the purported requirement that ETCs separately report partial-month subscribers, state only that ETC's should use Line 9 "*if*" they are claiming partial or pro-rata dollars: "If claiming partial or pro-rata dollars, check box on line 9." Likewise, Line 9 on the actual form itself provides:

"Check box to the right *if* partials or pro rata amounts are used." (Emphasis added.) The instructions and form thus simply identify where on the form a carrier should report partial-month subscriber data if the carrier is able to and chooses to do so.

Auditor Response According to USAC, The carrier should only be claiming support equal to the amount they are passing to its subscribers and should only be giving support to subscribers for the time they are actually receiving the discount.

USAC
Universal Service Administrative Company

USAC Management Response

Date: June 28, 2007

Subject: IPIA (Improper Payment Improvement Act) Audit of the Low Income Program of Nevada Bell Telephone Company (LI-2006-201)

USAC management has reviewed the IPIA Audit of Nevada Bell Telephone Company (55173). The audit firm TCBA has issued a qualified audit report. Our response to the audit is as follows:

Condition #1 LI-2006-201:
For this audit, Nevada Bell did not provide documentation supporting the incremental cost of providing toll limitation services (TLS) as claimed on Form 497 for the sample months of October 2004 and April 2005. A rate of $3.56 for TLS nonrecurring costs was claimed for each of 331 subscribers for whom TLS was initiated in October 2004 (the total claimed was $1,178) and 357 subscribers for whom TLS was initiated in April 2005 (the total claimed was $1,271).

Management Response:
USAC concurs with the comment, effect and recommendation in the Opinion.

Condition #2 LI-2006-201:
According to an AT&T official, when subscribers are enrolling in the Lifeline program, service representatives do not bring up and offer toll limitation service. The service representatives sign subscribers up for toll limitation service only if the subscribers ask. In addition, Nevada Bell's advertising provided for this audit did not mention toll limitation service.

Management Response:
Eligible telecommunications carriers are required to advertise all services supported under 47 C.F.R. § 54.101(a)[1]. USAC concurs with the comment, effect and recommendation in the Opinion.

Condition #3 LI-2006-201:
According to AT&T officials, in determining the amount of Lifeline support claimed on the Federal Communications Commission (FCC) Form 497 each month, a count of the number of subscribers in Nevada Bell's Lifeline Program on a particular day at the end of the month was obtained from the billing system for

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[1] 47 C.F.R. § 54.201(d)(2)

reporting on the Form 497. The number of subscribers was multiplied by the different Lifeline Tier rates to determine the amount of Lifeline support claimed. No adjustment was made on Line 9 of Form 497 for new subscribers who joined the Lifeline Program upon approval during the month and subscribers who left the Lifeline Program during the month; although these subscribers were given partial (i.e.. pro rata) discounts on their telephone bills for that month.

Management Response:
USAC concurs with the comment, effect and recommendation in the Management Letter. Line 9 (pro-rata support) of FCC Form 497 should be used by carriers to adjust their support claim if they lose or gain Lifeline subscribers throughout the month. A carrier is not entitled to be reimbursed for a full month of support for a subscriber that began Lifeline service mid-month[2]. The instructions to Line 9 of FCC Form 497 include the word "if" because pro-rating is not mandatory unless a company has Lifeline customers who started or terminated Lifeline support mid-month. A company might have months in which it neither lost nor gained Lifeline customers. In those instances, the company would not pro-rate Lifeline support. Accordingly, the instructions to FCC Form 497 include the permissive "if" because companies that have maintained the same number of Lifeline subscribers throughout a month will not have to pro-rate their Lifeline support.

The FCC had considered adopting a complicated formula for calculating pro-rata support, but the OMB-approved version of the form that contained this formula was not implemented. The FCC has not, however, adopted a policy that allows companies to assume that added and deleted Lifeline accounts "come out in the wash" each month; line 9 of FCC Form 497 is designed to capture pro-rated amounts. A carrier has a responsibility to maintain accurate records of the revenue it forgoes in providing the Lifeline discounts[3].

This concludes the USAC management response to the audit.

[2] *See* 47 C.F.R § 54.407(a). Universal service support for providing Lifeline shall be provided directly to the eligible telecommunications carrier, based on the number of qualifying low-income consumers it serves, under administrative procedures determined by the Administrator.

[3] *See* 47 C.F.R § 54.407(c).

APPENDIX B

USAC
Universal Service Administrative Company

High Cost & Low Income Division

Via Certified Mail Return Receipt Requested

February 13, 2009

Cathy Carpino
AT&T Services, Inc.
1120 20th Street, NW
Suite 1000
Washington, DC 20036

RE: Recovery for TLS Audit Finding for PacBell Telephone Company

Dear Ms. Carpino:

As you are aware, the auditors who conducted the audit of PacBell Telephone Company (SAC 545170) on behalf of the Federal Communications Commission (FCC) found an instance of non-compliance with the FCC's rules governing the Low Income universal service program. A copy of the final audit report is attached for your reference.

The auditors found that PacBell did not maintain records to document the company's incremental cost of providing Toll Limitation Service (TLS) to its Lifeline customers during the months audited (February 2005 and May 2005). Specifically, the auditors found that PacBell did not have documentation to support the weighted average rate of $4.24 claimed for 59,607 subscribers in February 2005 and the weighted average rate of $4.26 for 55,350 subscribers in May 2005. The total amount of TLS support claimed for these months was $488,930.00.

On June 24, 2008, USAC sent a letter to PacBell requesting that the company submit documentation to substantiate the rates claimed for TLS support for February 2005 and May 2005. In response, the company submitted documentation of PacBell's recurring TLS unit cost of $0.40, which was part of a 1995 filing with the California Public Service Commission, and non-recurring TLS unit cost of $6.74, which was approved by the California PSC in 1997. USAC management has concluded that the documentation submitted by PacBell does not support the TLS rates claimed by the company for the months audited. Because the company cannot provide documentation that substantiates the costs associated with the specific rates claimed during 2005, USAC will recover the TLS support provided during February 2005 and May 2005.

In sum, USAC will recover $488,930.00 in overpayments from PacBell's April 2009 low income support payment, which will be disbursed at the end of May 2009. If this amount exceeds the amount of support due to PacBell, USAC will continue recovering the overpayment amount against subsequent months' support disbursements until all recoveries are complete. In the event PacBell becomes no longer eligible to receive Low Income support, USAC will issue an invoice for the balance owed.

If you wish to appeal this decision to the FCC, the appeal must be filed within 60 days of the date of this letter. Additional information about the appeals process may be found on USAC's web site at www.universalservice.org/li/about/filing-appeals.

Sincerely,

USAC

Enclosure

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC
Certified Public Accountants and Management, Systems, and Financial Consultants

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Independent Accountant's Report
LI-2006-204

Pacific Bell
525 Market Street, 19th Floor #21
San Francisco, CA 94105

Universal Service Administrative Company
2000 L Street, N.W.
Suite 200
Washington, D.C. 20036
Attn: Internal Audit

Federal Communications Commission:
445 12th Street SW
Washington, DC 20554
Attn: Inspector General

We have examined management's assertions included in their letter dated March 3, 2007, (Attachment 1) that Pacific Bell (Study Area Code 545170) complied with the applicable program requirements of 47 C.F.R Section 54 of the Federal Communications Commission's Rules and Regulations and Related Orders identified in Attachment 2, relative to disbursements of $214,080,724.00 for Low Income Program Support services made from the Universal Service Fund during the fiscal year ended September 30, 2005. Pacific Bell's management is responsible for compliance with those requirements. Our responsibility is to express an opinion on management's assertions about Pacific Bell's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence about Pacific Bell's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Pacific Bell's compliance with specified requirements.

In conducting our examination we found a material deviation from program requirements of 47 C.F.R Section 54 of the Federal Communications Commission's Rules and Regulations and Related Orders. We could not determine whether the total toll limitation services amounts claimed on Form 497 for the sample months of February 2005 and May 2005 were accurate because Pacific Bell did not have documentation supporting the incremental cost of providing toll limitation services. This is a violation of 47 C.F.R. §54.417(a) recordkeeping requirements. Detailed information relative to this instance of material noncompliance is described in Attachment 3.

In our opinion, except for the material deviation from the criteria described in the preceding paragraph, management's assertions that Pacific Bell complied with the aforementioned requirements relative to disbursements of $214,080,724.00 for low income support services made from the Universal Service Fund for the year ended September 30, 2005, are fairly stated, in all material respects.

In addition, and in accordance with *Government Auditing Standards*, we noted an instance of immaterial noncompliance that we have reported to Pacific Bell in a separate letter dated April 5, 2007.

This report is intended solely for the information and use of Pacific Bell, the Federal Communications Commission of the United States of America and the Universal Service Administrative Company and is not intended to be and should not be used by anyone other than these specified parties.

Washington, DC Thompson, Cobb, Bazilio & Associates, P.C.
April 5, 2007

Attachment 1

AT&T Assertion Letter for Study Area Codes
545170 (Pacific Bell), 445216 (Southwestern Bell – Texas), 325080 (Indiana Bell), 415213 (Southwestern Bell – Kansas), 435215 (Southwestern Bell - Oklahoma) and 555173 (Nevada Bell)

Report of Management on Compliance with Applicable Requirements of 47 C.F.R. Section 54 of the Federal Communications Commission's Rules, Regulations and Related Orders

Management of AT&T is responsible for ensuring that the carrier is in compliance with applicable requirements of the Federal Communications Commission (FCC) rules at 47 C.F.R. §§ 54.101, 54.201 -- 54.209, and 54.400 -- 54.417 as well as related FCC Orders.

Management has performed an evaluation of the carrier's compliance with the applicable requirements of FCC rules at 47 C.F.R. §§ 54.101, 54.201 -- 54.209, and 54.400 -- 54.417, and related FCC Orders with respect to providing discounts to eligible low income consumers and seeking reimbursement from the Universal Service Fund (USF) during the year ended September 30, 2005.

AT&T makes the following assertions with respect to Low Income Program reimbursements received from the USF for Study Area Codes listed above for year ended September 30, 2005:

A. Carrier Eligibility – AT&T asserts that it:

1. is an eligible telecommunications carrier (ETC) that provides the services that an eligible carrier must offer to receive federal universal service support (See the attached documents/orders showing ETC status for each of the six states.)

2. makes available Lifeline service, as defined in 54.401, to qualifying low-income consumers.

B. Advertising Supported Services. AT&T asserts that it publicizes the availability of supported services in a manner reasonably designed to reach those likely to qualify for Lifeline and Toll Limitation Support services.

C. Rate verification AT&T asserts that it:

1. provides discounts to qualifying subscribers for Lifeline service:

   i. Tier 1: Available to all eligible Lifeline subscribers equal to the Incumbent Local Exchange Carrier's (ILEC's) actual federal tariffed subscriber line charge.

   ii. Tier 2: $1.75 per month available to qualified low-income consumers, if the carrier received any non-federal approvals necessary to implement the required rate reduction and passes through the full amount of Tier 2 support to the qualifying low-income consumer

   iii. Tier 3. An additional amount of federal Lifeline support equal to one-half the amount of any State-mandated Lifeline support, or one half of any Lifeline support provided by the Service Provider, up to a maximum of $1.75 per month.

   iv. Tier 4 Additional federal Lifeline support of up to $25 per month to eligible residents of tribal lands, as defined in § 54.400 (e), as long as the amount does not bring the basic local residential rate below $1 per month per qualifying low-income subscriber.

2. provides discounts to qualifying subscribers for Link Up service

Attachment 2

Federal Communications Commission's 47 C.F.R. Part 54 Rules and Related Orders with which Compliance was Examined

Carrier Eligibility:

Section 54.101 (a)

Section 54.201 (a)

Section 54.405 (a)

Advertising Supported Services:

Section 54.201 (d) (2)

Section 54.405

Rate Verification:

Section 54.101 (9)

Section 54.401 (c)

Section 54.403 (a) (1)

Section 54.403 (a) (2)

Section 54.403 (a) (3)

Section 54.403 (a) (4)

Section 54.403 (c)

Section 54.407

Section 54.411 (a) (1)

Section 54.411 (a) (3)

Section 54.417 (a)

Federal-State Board on Universal Service, CC Docket No. 96-45, Report and Order, 12 FCC Rcd 8776, ¶¶ 385-389 (1997))

Consumer Qualifications:

Section 54.410

Submission of FCC Form 497:

Section 54.407

Attachment 3

Comment	**Toll Limitation Services Cost–Section 54.417(a) Noncompliance**
Condition	For this audit, Pacific Bell did not provide documentation supporting the incremental cost of providing toll limitation services (TLS) as claimed on Form 497 for the sample months of February 2005 and May 2005—rates of \$0.0356592 for recurring costs and \$4.07376 for nonrecurring costs. A weighted average rate of \$4.24 was claimed for each of 59,607 subscribers for whom TLS was initiated in February 2005 (the total claimed was \$252,892), and a weighted average rate of \$4.26 was claimed for each of 55,350 subscribers for whom TLS was initiated in April 2005 (the total claimed was \$236,038).
Criteria	Section 54.417(a) of 47 C.F.R of the Federal Communications Commission's (FCC) Rules and Regulations and Related Orders requires that eligible telecommunications carriers must maintain records to document compliance with all Commission and state requirements governing the Lifeline/Link Up programs for three full preceding calendar years and provide that documentation to the Commission or USAC Administrator upon request.
Cause	According to Pacific Bell, documentation (e.g., a cost study) supporting the rates of \$0.0356592 and \$4.07376 for recurring and nonrecurring costs of TLS claimed on Form 497 for February 2005 and May 2005 was not available.
Effect	We could not determine whether the total TLS dollars claimed on Form 497 for the sample months of February 2005 and May 2005 were accurate.
Recommendation	We recommend that Pacific Bell take steps to ensure that all records, including documentation supporting the incremental cost of providing TLS, needed to document compliance with all Commission and state requirements governing the Lifeline/Link Up programs are maintained for three full preceding calendar years and provided to the Federal Communications Commission or the Universal Service Administrative Company Administrator upon request.
Beneficiary Response	The TLS rates claimed on the Form 497 for February 2005 and May 2005 were based on previously completed cost studies, the details of which could not currently be located. In 2005, Pacific Bell updated its cost studies for the incremental cost of providing toll limitation services and began using the updated rates on the Form 497 effective in January 2006. The new rates of \$0.40 and \$6.74 are higher than the rates claimed for February 2005 and May 2005 of \$0.0356592 for recurring costs and \$4.07376 for nonrecurring costs. Had the updated study results been used for the aforementioned months, the TLS dollars claimed would have been \$517k higher.

USAC
Universal Service Administrative Company

USAC Management Response

Date: July 2, 2007

Subject: IPIA (Improper Payment Improvement Act) Audit of the Low Income Program of Pacific Bell Telephone Company (LI-2006-204)

USAC management has reviewed the IPIA Audit of Pacific Bell Telephone Company (545170). The audit firm TCBA has issued a qualified audit report and a management letter. Our response to the audit is as follows:

Condition 1 LI-2006-204 Opinion:
For this audit, Pacific Bell did not provide documentation supporting the incremental cost of providing toll limitation services (TLS) as claimed on Form 497 for the sample months of February 2005 and May 2005—rates of $0.0356592 for recurring costs and $4.07376 for nonrecurring costs. A weighted average rate of $4.24 was claimed for each of 59,607 subscribers for whom TLS was initiated in February 2005 (the total claimed was $252,892), and a weighted average rate of $4.26 was claimed for each of 55,350 subscribers for whom TLS was initiated in April 2005 (the total claimed was $236,038).

Management Response:
USAC concurs with the comment, effect and recommendation in the Opinion.

This concludes the USAC management response to the audit.

APPENDIX C

USAC
Universal Service Administrative Company

Pamela Gallant
Director, Low Income Program
High Cost & Low Income Division

Via Certified Mail Return Receipt Requested

June 24, 2008

Steven Ellis
Nevada Bell Telephone Company
2600 Camino Ramon
3S250EE
San Ramon, CA 94583

RE: Low Income Audit Results

Dear Mr. Ellis:

As you are aware, the auditors who conducted the recent audit of Nevada Bell Telephone Company (SAC 555173) on behalf of the Federal Communications Commission (FCC) found an instance of non-compliance with the FCC's rules governing the Low Income universal service program. USAC's management response to the auditors' report is attached for your reference.

The auditors found that Nevada Bell did not maintain records to document the company's incremental cost of providing Toll Limitation Service (TLS) to its Lifeline customers during the months audited (October 2004 and April 2005). Specifically, the auditors found that Nevada Bell did not have documentation to support the rate of $3.56 claimed for 331 subscribers in October 2004 and for 357 subscribers in April 2005. The total amount of TLS support claimed for these months was $2,449.00.

USAC requests that Nevada Bell submit documentation, based on its 2004 and 2005 costs, that supports the TLS support claims examined in the audit report. The documentation need not be in the form of a cost study, but it must clearly demonstrate the costs incurred by Nevada Bell in 2004 and 2005 for providing TLS at the rate noted above.

Please send this supporting documentation to my attention no later than July 28, 2008. USAC will recover the $2,449.00 in TLS support paid in October 2004 and April 2005 if the company cannot provide adequate documentation of its costs.

Sincerely,

Pamela Gallant

Enclosure

USAC
Universal Service Administrative Company

USAC Management Response

Date: June 28, 2007

Subject: IPIA (Improper Payment Improvement Act) Audit of the Low Income Program of Nevada Bell Telephone Company (LI-2006-201)

USAC management has reviewed the IPIA Audit of Nevada Bell Telephone Company (55173). The audit firm TCBA has issued a qualified audit report. Our response to the audit is as follows:

Condition #1 LI-2006-201:
For this audit, Nevada Bell did not provide documentation supporting the incremental cost of providing toll limitation services (TLS) as claimed on Form 497 for the sample months of October 2004 and April 2005. A rate of $3.56 for TLS nonrecurring costs was claimed for each of 331 subscribers for whom TLS was initiated in October 2004 (the total claimed was $1,178) and 357 subscribers for whom TLS was initiated in April 2005 (the total claimed was $1,271).

Management Response:
USAC concurs with the comment, effect and recommendation in the Opinion.

Condition #2 LI-2006-201:
According to an AT&T official, when subscribers are enrolling in the Lifeline program, service representatives do not bring up and offer toll limitation service. The service representatives sign subscribers up for toll limitation service only if the subscribers ask. In addition, Nevada Bell's advertising provided for this audit did not mention toll limitation service.

Management Response:
Eligible telecommunications carriers are required to advertise all services supported under 47 C.F.R. § 54.101(a)[1]. USAC concurs with the comment, effect and recommendation in the Opinion.

Condition #3 LI-2006-201:
According to AT&T officials, in determining the amount of Lifeline support claimed on the Federal Communications Commission (FCC) Form 497 each month, a count of the number of subscribers in Nevada Bell's Lifeline Program on a particular day at the end of the month was obtained from the billing system for

[1] 47 C.F.R. § 54.201(d)(2)

reporting on the Form 497. The number of subscribers was multiplied by the different Lifeline Tier rates to determine the amount of Lifeline support claimed. No adjustment was made on Line 9 of Form 497 for new subscribers who joined the Lifeline Program upon approval during the month and subscribers who left the Lifeline Program during the month; although these subscribers were given partial (i.e., pro rata) discounts on their telephone bills for that month.

Management Response:
USAC concurs with the comment, effect and recommendation in the Management Letter. Line 9 (pro-rata support) of FCC Form 497 should be used by carriers to adjust their support claim if they lose or gain Lifeline subscribers throughout the month. A carrier is not entitled to be reimbursed for a full month of support for a subscriber that began Lifeline service mid-month[2]. The instructions to Line 9 of FCC Form 497 include the word "if" because pro-rating is not mandatory unless a company has Lifeline customers who started or terminated Lifeline support mid-month. A company might have months in which it neither lost nor gained Lifeline customers. In those instances, the company would not pro-rate Lifeline support. Accordingly, the instructions to FCC Form 497 include the permissive "if" because companies that have maintained the same number of Lifeline subscribers throughout a month will not have to pro-rate their Lifeline support.

The FCC had considered adopting a complicated formula for calculating pro-rata support, but the OMB-approved version of the form that contained this formula was not implemented. The FCC has not, however, adopted a policy that allows companies to assume that added and deleted Lifeline accounts "come out in the wash" each month; line 9 of FCC Form 497 is designed to capture pro-rated amounts. A carrier has a responsibility to maintain accurate records of the revenue it forgoes in providing the Lifeline discounts[3].

This concludes the USAC management response to the audit.

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[2] *See* 47 C.F.R § 54.407(a). Universal service support for providing Lifeline shall be provided directly to the eligible telecommunications carrier, based on the number of qualifying low-income consumers it serves, under administrative procedures determined by the Administrator.

[3] *See* 47 C.F.R § 54.407(c).

APPENDIX D

USAC
Universal Service Administrative Company

Pamela Gallant
Director, Low Income Program
High Cost & Low Income Division

Via Certified Mail Return Receipt Requested

June 24, 2008

Steven Ellis
Pacific Bell Telephone Company
2600 Camino Ramon
3S250EE
San Ramon, CA 94583

RE: Low Income Audit Results

Dear Mr. Ellis:

As you are aware, the auditors who conducted the recent audit of Pacific Bell Telephone Company (SAC 545170) on behalf of the Federal Communications Commission (FCC) found an instance of non-compliance with the FCC's rules governing the Low Income universal service program. USAC's management response to the auditors' report is attached for your reference.

The auditors found that Pacific Bell did not maintain records to document the company's incremental cost of providing Toll Limitation Service (TLS) to its Lifeline customers during the months audited (February 2005 and May 2005). Specifically, the auditors found that Pacific Bell did not have documentation to support the weighted average of $4.24 claimed for 59,607 subscribers in February 2005 and the weighted average of $4.26 claimed for 55,350 subscribers in May 2005 (rates of $0.0356592 for recurring costs and $4.07376 for non-recurring costs). The total amount of TLS support claimed for these months was $488,930.00.

USAC requests that Pacific Bell submit documentation, based on its 2005 costs, that supports the TLS support claims examined in the audit report. The documentation need not be in the form of a cost study, but it must clearly demonstrate the costs incurred by Pacific Bell in 2005 for providing TLS at the rates noted above.

Please send this supporting documentation to my attention no later than July 28, 2008. USAC will recover the $488,930.00 in TLS support paid in February 2005 and May 2005 if the company cannot provide adequate documentation of its costs.

Sincerely,

Pamela Gallant

Enclosure

USAC
Universal Service Administrative Company

USAC Management Response

Date: July 2, 2007

Subject: IPIA (Improper Payment Improvement Act) Audit of the Low Income Program of Pacific Bell Telephone Company (LI-2006-204)

USAC management has reviewed the IPIA Audit of Pacific Bell Telephone Company (545170). The audit firm TCBA has issued a qualified audit report and a management letter. Our response to the audit is as follows:

Condition 1 LI-2006-204 Opinion:
For this audit, Pacific Bell did not provide documentation supporting the incremental cost of providing toll limitation services (TLS) as claimed on Form 497 for the sample months of February 2005 and May 2005—rates of $0.0356592 for recurring costs and $4.07376 for nonrecurring costs. A weighted average rate of $4.24 was claimed for each of 59,607 subscribers for whom TLS was initiated in February 2005 (the total claimed was $252,892), and a weighted average rate of $4.26 was claimed for each of 55,350 subscribers for whom TLS was initiated in April 2005 (the total claimed was $236,038).

Management Response:
USAC concurs with the comment, effect and recommendation in the Opinion.

This concludes the USAC management response to the audit.

USAC
Universal Service Administrative Company

USAC Management Response

Date: July 2, 2007

Subject: IPIA (Improper Payment Improvement Act) Audit of the Low Income Program of Pacific Bell Telephone Company (LI-2006-204)

USAC management has reviewed the IPIA Audit of Pacific Bell Telephone Company (545170). The audit firm TCBA has issued a qualified audit report and a management letter. Our response to the audit is as follows:

Condition 1 LI-2006-204 Management Letter:
Pacific Bell provided electronic subscriber listings of Low Income Program subscribers for which support was claimed on Federal Communications Commission (FCC) Form 497 for our sample months of February 2005 and May 2005. While the Lifeline Tier 1, Tier 2, and Tier 3 subscriber counts on the electronic listings agree with the counts on the Forms 497 for both months, there are 183,539 subscriber records (95,224 in February 2005 and 88,315 in May 2005) with blank fields for the subscribers' names, addresses, cities, and states—the only identifier is the subscribers' telephone numbers. In addition, while the differences are small, the electronic listings do not agree with the Form 497 and supporting summary documents for the number of Tribal subscribers (Tier 4) in February 2005, and the number of subscribers for who toll limitation services (TLS) were initiated in February 2005. The electronic listings show 22 Tier 4 and 59,464 TLS subscribers, while the Form 497 and supporting summary documents show 21 Tier 4 and 59,607 TLS subscribers in February 2005.

Management Response:
A carrier is required to maintain accurate records of the revenues it forgoes in providing Low Income support.[1] As the auditors note, however, the Commission's rules do not specify the specific type of records a carrier must maintain in order to substantiate its support claims. For this reason, USAC concurs with the comment, effect and recommendation in the Management Letter.

This concludes the USAC management response to the audit.

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[1] *See* 47 C.F.R § 54.407(c)

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